Commission to Strengthen & Secure PERA

Final Report to the State Treasurer

September 14, 2005

Office of the Colorado State Treasurer
140 State Capitol
Denver, Colorado 80203

www.treasurer.state.co.us

Treasurer's Commission to Strengthen & Secure PERA

Final Report to the State Treasurer

Table of Contents

Commission Members

Gov. Dick Lamm	Sen. Hank Brown[1]
Co-Chairman	Co-Chairman

Bruce Benson – President, Benson Mineral Group

Lt. Gov. Sam Cassidy – Professor of Business, University of Denver

John Lay – President, Southeast Denver Business Partnership

Ed McVaney – Former Chairman and CEO, J.D. Edwards

LaRae Orullian – President, Guaranty Bank Corp.

Dr. Patrica Pacey – President, Pacey Economics Group

Dr. Barry Poulson – Professor of Economics, University of Colorado

Thomas Williams – President, Williams Group, LLC

[1] Sen. Brown resigned as Co-Chairman of the Commission on April 19, 2005 due to his appointment as President of the University of Colorado.

Letter of Transmittal

September 14, 2005

The Honorable Mark Hillman
Colorado State Treasurer
140 State Capitol
Denver, CO 80202

Dear Treasurer Hillman,

It is with pride that I present to you the Final Report to the State Treasurer of the Commission to Strengthen and Secure PERA for your consideration.

This report is the culmination of six months of hearings, discussions and meetings by the Commissioners. It has been a substantial journey, and I can assure you that each Commissioner invested a substantial amount of time and energy to produce the recommendations contained within this report.

The challenges facing PERA are immense, yet the options available to correct the financial course of the pension program on which tens of thousands of Coloradans depend are many. We have identified several of these solutions, and we hope they prove valuable to you in your role as both a PERA Trustee and as the state's chief financial officer.

Let me thank you for your leadership on this issue vital to the future of Colorado, and I speak for all of the Commissioners when I say that we stand ready to assist you as you seek to strengthen and secure PERA.

Sincerely,

Gov. Richard Lamm
Chairman

Executive Summary

In August of this year, the Colorado Public Employee Retirement Association (PERA), which provides pension benefits for 68,000 retirees and over 175,000 active state and local public employees, reported that its funding ratio—a key financial measurement of the plan—had rapidly deteriorated from its 1999 high of 105.2 percent to just above 70 percent as of December 2004. In just 5 years, PERA went from having more assets than required to pay promised benefits to being able to meet just seventy percent of its obligations.

Even more troubling than this rapid financial decline, PERA's actuary reports that the plan's financial condition will only worsen over the coming decades. Barring record breaking returns in the financial markets, at no point in time in the program's future will PERA have enough funds to pay the pension benefits promised to thousands of Coloradans and their families.

Recognizing the seriousness of the problem and its potential impact not just on state employees and retirees but to state taxpayers, Colorado State Treasurer Mike Coffman, who sat as an *ex officio* member of the PERA Board of Trustees before returning to active duty military service, formed the Commission to Strengthen and Secure PERA.

Chaired by former Colorado Governor Dick Lamm, over the course of six months the Commission of accomplished business executives, public-sector leaders and academic experts took testimony from PERA, legal counsel and pension professionals. The result is this Final Report to the State Treasurer, exploring not just the cause of PERA's financial deterioration, but more importantly, identifying responsible solutions to both restore fiscal stability to the state's pension program and to strengthen its governance structure to prevent such financial problems in the future.

While the Commission finds a number of factors that caused the financial deterioration of PERA, the largest is the failure of PERA management, the State Legislature and the Governor's office to act as responsible stewards of the state pension system. Accordingly, governance changes top the list of recommendations for PERA reform, including:

- Restructuring the Board of Trustees to reflect the legitimate interests of employers and taxpayers in the management of the plan, lowering the number of Trustees, and requiring professional or educational experience for all elected or appointed Trustees.

- Strengthening legislative oversight of the plan by requiring an independent financial and actuarial review before enacting any changes to PERA's benefit or contribution levels.

- Giving the legislature the ability to make changes to the plan when economic conditions change and merit such an adjustment.

Beyond the issue of governance, the Commission further presents a series of financial reforms to address the $12.8 billion unfunded liability of the plan. These reforms include: increasing the employee contribution to parity with the employers, decreasing the Cost of Living Adjustment and increasing the retirement age for workers under the age of 40. Most of these reforms however will apply only to existing state employees and new hires, not to those currently retired or those workers eligible for unreduced retirement benefits.

The Commission stresses the importance for state policy makers to act quickly and decisively to implement fundamental reform of PERA. The time to act is now, while we can still afford it.

Finally, the Commission would like to thank the Public Employees Retirement Association for accommodating our information requests and participating in Commission hearings. The Commission would also like to thank the Denver Metro Chamber of Commerce for hosting the Commission meetings.

The Path to Insolvency

For the first time in the organization's history, in 1999 the Public Employee Retirement Association (PERA), Colorado's public employee pension system, achieved "fully funded" status—there were more assets than required to pay promised benefits. In 2000, PERA accomplished the feat again, when the plan achieved a 105.2 percent funding ratio. Times were good for Colorado's pension plan, as they were for many defined benefit pension systems across the country. The booming market of the late 1990's resulted in record investment returns leaving PERA in particular, with its heavy reliance on equity investments, flush with success.

Just five short years later, the financial picture for the pension system that provides retirement income for nearly 68,000 retirees and over 175,000 active workers could not look more different. Beginning in 2001, PERA's actuarial ratio fell more than thirty percent to end, as of December 31, 2004, at just 70.6 percent. After concluding the 1990s with an $800 million surplus, PERA is now facing a $12.8 billion shortfall—a number that grows larger by the day.[2]

To succeed, a defined benefit pension program must strike a delicate balance between the contributions coming into the system, the investment returns on those contributions, and the benefits paid to retirees. This careful balance has been maintained despite the poor market returns over the last few years by a number of defined benefit plans nationwide and here in Colorado, including the Denver and Aurora employee retirement systems, both of which are at or above 100 percent funded. In the case of PERA, however, we have a system that is out of balance—contributions and investments will not, over the long run, pay for the benefits promised to thousands of Coloradans and their families. As PERA's actuary Buck Consultants points out:

> *It is our opinion that the current funding is sufficient to pay benefit payments through the projected actuarial period of 30 years. However, the contribution rates are currently not sufficient to support the pension system's benefit structure long-term...*[3]

The Commission would like to stress that there is not an inherent flaw with the defined benefit pension model in the modern era. Indeed, the Commission heard from two exceptionally managed defined benefit plans in Colorado, the Aurora General Employees Retirement plan and the Denver Employees Retirement plan. As the key findings of the Commission bear out, the overriding cause of PERA's financial deteriorating stems primarily not from circumstances in the external environment, but rather the failure of PERA management and its governance structure to act as responsible stewards of the state's pension system.

Key Findings

As the Commission learned in testimony from PERA and through additional research it was not simply the market decline of 2001-2002 that caused the majority of PERA's current

[2] 2004 PERA Annual Report and PERA Presentation to the Commission, March 4, 2005.

[3] 2004 PERA Annual Report.

financial problems, rather a combination of changes to the pension equation created the fiscal crisis in which PERA now finds itself:[4]

- **Increase in the Cost of Living Adjustment (COLA) –** Beginning in the early 1990s, the COLA, an annual increase of benefits to compensate for inflation, changed several times without, in the Commission's opinion, a clear strategic objective. Rather than tying this core actuarial variable to a formula related to the rate of inflation, in 2000 Legislature set the COLA at a fixed 3.5 percent per annum—regardless of changes in the economic environment. The result of this change is that on a current dollar basis the average retiree will in the future actually receive more in retirement income than the average active worker will receive in pay.

- **Lowering of the Retirement Age –** Also a 2000 legislative change, the oft-referred to "Rule of 80" allowed for retirement with unreduced benefits as early as age fifty with thirty years of service credit. This decrease in the age of eligibility sparked a wave of retirements before the age of fifty-five, from 124 in 1998 to 851 in 2004—a more than 680% increase—that dramatically increased the plan's liabilities.[5]

- **Purchase of Service Credits Below Actuarial Cost –** Among the more damaging of changes to the PERA funding equation, the PERA Board of Trustees allowed the purchase of service credits—essentially the financial equivalent of one year worth of work—at a level drastically below the actuarial cost of the credits. In 2003 alone, PERA members purchased $2 billion worth of service credits for $772 million, resulting in a dramatic increase in unfunded liabilities.[6]

- **Decrease in Employer Contribution Rates –** The employer contribution rates to PERA have fluctuated substantially in the past few years, reflecting a lack of coherent strategic planning and an over-reaction to changes in the market environment. Between 1997 and 2003, PERA's state and school division had six different contribution rates, from a high of 11.5 percent to a low of 9.9% to its current 10.15%.

- **MatchMaker Program –** Created in 1999, this program allowed PERA members to contribute to a voluntary defined contribution account and receive a matching contribution by his or her employer. Unfortunately, this employer match came from the contributions employers were already making to the existing defined benefit program. As a result, the defined benefit program essentially subsidized the defined contribution program.

- **Investment Performance –** From its peak investment returns of the late 1990s—due mainly to PERA's heavy reliance on equity investments—to its record losses of 2000-2002, PERA's investment performance on both a three year and five year

[4] The following information is a compilation of PERA testimony, the 2003 PERA Annual Report and the 2004 PERA Annual Report.

[5] PERA Report to the House and Senate Finance Committees, Jan. 20, 2005.

[6] In 2002, the Board of Trustees did begin a gradual increase in the cost of service credits so that by 2006 service credits are priced at their full actuarial cost.

annualized basis has failed to keep pace with the median pension fund, with the 10-year return just equaling average performance.[7]

The 2004 Legislative Package

The Commission would like to acknowledge that the PERA Board of Trustees developed and was successful in passing a legislative package in 2004 to improve PERA's financial condition. The package's major provisions include:

- For employees hired on or after July 1, 2005, a return in the retirement age for unreduced benefits from age fifty to age fifty-five.
- For employees hired on or after July 1, 2005, a reduction in the annual COLA from 3.5 percent to the lower of 3% or the rate of inflation
- The termination of MatchMaker contributions for all members after June 1, 2004.
- An increase in employer contribution rates, including a complicated new rate increase paid by employers termed an Amortization Equalization Disbursement that will continue to increase through 2012 and will remain in effect indefinitely.

Despite all of these changes however, in PERA's 2004 Annual Report, which includes calculations based on the 2004 legislative package, all of the divisions under PERA continue to have an infinite amortization schedule—at no point in time in the future will contributions and investment income be sufficient to pay all promised benefits. Put another way, despite the Board of Trustees 2004 package, the program will never at any point in the foreseeable future return to actuarial solvency. In fact, PERA will only continue to see its financial condition deteriorate, making more fundamental reform necessary sooner, rather than later.

[7] PERA Report to the Joint Budget Committee, Nov. 30, 2004.

Strengthening & Securing PERA

With nearly 68,000 retirees and over 175,000 active workers, the financial health of PERA is of critical importance to the State of Colorado. Unfortunately, the outlook for the pension system on which these Coloradans and their families depend is anything but positive.

In June 2005, PERA announced that the funded ratio of the plan—a measure of assets to its accrued liabilities—fell from its 2000 high of 105.2 percent to 70.6 percent. The total unfunded liability now tops a staggering $11 billion.

Even more worrisome to the Commission, these declines will continue to worsen over the coming decades despite strong investment performance and the 2004 legislative package advanced by the PERA Board of Trustees. Clearly, the reliance on the power of the financial markets and a "band-aid" approach to solving PERA's financial difficulties will not do the job. As the 2005 PERA Legislative Audit Committee report noted:

> *PERA should continue to work with the Governor and the General Assembly to seek changes in the employer and/or member contributions and other plan provisions for the State and School Division, the Municipal Division, and the Judicial Division trust funds in order to achieve the 40-year amortization period deemed to be actuarially sound under Section 24-51-211, C.R.S.*[8]

The Commission would like to add that while investment performance plays a critical role in the pension program equation, we do not agree with the assertion made by PERA during its testimony that relying most heavily on the performance of financial markets will lead PERA out of danger. Indeed, we find this line of thinking fundamentally flawed as it ignores both the collective causes of PERA's current financial difficulties and the full range of options available to correct it.

Given PERA's deteriorating financial condition and the critical role it plays in the lives of tens of thousands of Coloradans and their families, it is imperative that policy makers act quickly to reform the plan. Because of this finding, the Commission has developed for the State Treasurer's consideration a series of proposals to strengthen and secure PERA's financial future.[9]

Strengthening Governance

While there are a number of contributory factors in the recent decline of PERA's funded status, responsibility for this decline ultimately rests with those tasked with the governance of PERA.

---

[8] Colorado PERA Legislative Audit Committee Report, year ended Dec. 31, 2004.

[9] The Commission would like to note that we are sensitive to the unresolved legal issue of taxpayer responsibility in the event of a catastrophic financial failure of the PERA. As a result, the Commission would like to be clear that the following proposals to strengthen and secure PERA are in no way meant to construe or imply a legal liability of state taxpayers for the current or future unfunded liabilities of PERA.

PERA employs an outmoded and ineffective governance regime—particularly as it relates to the sixteen-member Board of Trustees. This structure results in an organizational inability to coherently manage a pension system with more than $30 billion in assets for three principle reasons:

- The current composition of the Board—composed entirely of plan participants—fails to adequately consider the legitimate interests of employers and state taxpayers in the effective management of the plan.

- A potential decision making bias by Trustees who are all beneficiaries of the plan.

- The lack of any required minimum financial education or prior substantive business experience before becoming a Trustee results in a Board not sufficiently equipped to deal with the complexities of managing a multi-billion dollar trust, or to provide effective oversight of the plan's executive staff, including employment decisions.

The Commission cannot emphasize enough the importance of strong, effective governance of entities that provide for the financial well being of others. The objective of governance reform is to bring PERA in line with modern governance practices, following the examples set in other states, and specifically by strengthening the Board consistent with the following principles:

- **Balance the Interests of Other Stakeholder Groups –** As PERA's history has borne out, and drawing from other examples from the private sector, a board composition that does not reflect the legitimate interests of other key stakeholders tends to be dysfunctional, even if not intentional. Over the long term, such a Board will seek only to maximize its interests at the expense of others, which is precisely the case with PERA. Restructuring the Board to reflect a balance among stakeholder interests is among the most important reforms to PERA and one that has the potential for greatest benefit.

  Furthermore, while the Commission does not recommend a specific composition of the new Board, we do suggest that the Board have an equal representation of pension beneficiaries, public employers and outside professionals who have no existing relationship to the pension plan.

- **Reducing the number of Trustees –** The current sixteen-member Board is an unwieldy number of Trustees, and in fact may work against effective management of PERA by discouraging minority voices and minimizing dissenting opinions. As a result, the Commission recommends that the number of Trustees decrease to a level more in line with modern governance practices.

- **Requiring Educational/Professional Experience –** When combining the sheer size of PERA—greater than $30 billion in assets—with the tens of thousands of Coloradans who depend on its financial security, the leadership responsibility is immense and the skills required for effective management highly demanding.

  As a result, the Commission recommends requiring all elected or appointed Board members have a qualified educational or prior professional background in finance, economics, business administration, pension management or other closely related field. The Commission is however sensitive to the issue of how best to attract and retain such professionals. Therefore, we recommend policy makers evaluate the feasibility of providing a stipend to non *ex officio* Trustees in exchange for their service.

Strengthening Legislative Oversight

While the PERA Board has policy-making authority over many aspects of the plan's operation, ultimately the State Legislature determines both contribution levels and the benefit structure. Indeed, many of the Commission's key findings on PERA's current situation are the direct result of legislative action taken during the 1999 and 2000 sessions, namely the increase in the cost of living adjustment and the lowering of the retirement age.

While the Commission understands the Legislature's policy objectives in making these changes, the lack of independent actuarial and financial information provided to the General Assembly when evaluating changes to PERA is concerning. The Commission believes that the over-reliance by the Legislature on information provided by PERA's staff and contract lobbyists during past legislative sessions was a key factor in enacting changes that directly contributed to PERA's poor financial condition.

Equally troubling is the limited ability—due to the contract clause protection in the U.S. and Colorado Constitutions—of the Legislature to modify the plan, particularly its benefit structure, once enacted. As testimony to the Commission bore out, there is a limited common law basis—primarily the *Peterson v. FPPA* decision in 1986—setting forward the conditions under which the Legislature may change the plan's benefit structure. These conditions seem to give the Legislature ample flexibility to make changes that *increase* benefits, but limit its ability to *decrease* those benefits once they become law.

The Commission believes that these limited conditions, defined in *Peterson* as being: 1) a change that is actuarially necessary; 2) a change that strengthens or improves the plan; or 3) a change offset by another change of a beneficial nature, as too vague to be an effective guideline for the Legislature. As in the private sector, the State Legislature as the plan's sponsor must be empowered to make reasonable, responsible adjustments to the system's prospective benefit levels when a situation merits such action. The inflexibility to make those adjustments, particularly as it pertains to unearned benefits, is in the Commission's opinion a troubling usurpation of Legislative prerogative.

The Commission finds that strengthening legislative oversight over the plan, consistent with the following recommendations, is an important reform necessary to secure the long-term financial health of PERA. Even more importantly, these reforms should help to protect against actions that might cause the program to face similar financial hardships in the future.

- **Require Independent Actuarial and Economic Review Prior to Changes in Benefits or Contributions –** Modern defined benefit pension programs, particularly of PERA's size, are immensely complicated and rely on an intertwined series of assumptions and qualitative/quantitative analysis to predict future results and funding levels. Because of this complexity, it is only prudent then that the Legislature receive all reasonable information from an independent source before such changes become law.

The Commission recommends that before enacting any legislation with a material impact on benefit or contribution levels—either increasing or decreasing—the State Legislature engages an independent actuary or similar professional to evaluate the financial and economic impact of such changes. The Commission cannot stress strongly enough the importance of the Legislature having complete, sound and most importantly independent financial information with which to evaluate changes to PERA.

- **Reservation of the Right to Change –** By no means is the Commission questioning the importance or validity of the Constitutional protection afforded to contracts between the government and its citizens. However, this very provision results in an unreasonable restriction on the ability of the State Legislature to make reasonable changes to the plan as circumstances may dictate.

  The Commission believes that it is in the best interests of both plan members and state taxpayers for the Legislature to have the flexibility to prospectively adjust benefit levels as may be appropriate to secure the financial health of the plan. Thus, the Commission recommends that the Legislature enact a statutory reservation of the right to change PERA benefits under certain conditions.

- **Strengthen Amortization Requirement/Define "Actuarially Necessary" –** As testimony before the Commission demonstrated, the current statutory provision requiring PERA to meet a forty-year amortization schedule for any unfunded liability is largely unenforceable. Indeed, PERA's own actuary does not project actuarial soundness beyond a thirty-year horizon, leaving a significant question as to the validity of this statutory provision.

  The Commission finds, however, that the intent of the statute, namely that PERA must be able to amortize over a reasonable period any unfunded liabilities in its system, is an important and fiscally prudent provision in state law. In an effort to strengthen this provision and bring it in line with standards set by the Government Accounting Standards Board (GASB No. 25), the Commission recommends a reduction in the timeframe from its current forty-year horizon to a thirty-year amortization period.

  In addition to this change, the Commission recommends adding a provision in state law that would legislatively define the "actuarially necessary" standard of the *Peterson v. FPPA* decision. The definition would state that the standard is fulfilled if PERA's actuary finds the plan outside of the statutory amortization period. In such circumstance, the Legislature is empowered to make such changes as necessary to bring the system back under a thirty-year amortization schedule.

Addressing the Unfunded Liability

Changing PERA's governance to more reflect modern management practices and improving Legislative oversight of the plan are positive steps toward strengthening and securing the plan. However, it is equally important that PERA undertake the steps necessary to eliminate the current $12.8 billion unfunded liability and bring the system back into actuarial balance.

As testimony to the Commission demonstrated, a successful defined benefit pension program requires a delicate balance between contributions, investment returns and benefit levels. In the case of PERA, we find a system out of balance—current contributions and investment income are no longer sufficient to deliver promised benefits. Despite strong investment returns over the past two years and the 2004 legislation, the program's funding level is still deteriorating at an alarming rate.

Rectifying the situation now, before more time elapses and the problem becomes even more serious, is necessary to secure PERA's future and is indisputably in the best interests of PERA members and state taxpayers. The time for decisive action is now, and the Commission recommends the following changes as a minimum and necessary first step to correct PERA's fiscal course.[10]

- **Increase the Employee Contribution Rate –** The Commission finds that the inequity between the contribution rate borne by the employer and that of the employee—10.15 percent and 8 percent respectively—is neither a fair nor reasonable concession for state taxpayers to make given the generous benefits PERA members enjoy and their relatively low retirement age.

  Additionally, the Commission would like to express its consternation with the 2004 legislation that will result in an even wider gap between the contributions made by the employee and that ultimately paid for by Colorado taxpayers. Ultimately, the Commission believes that employees and employers must share equally in funding a retirement system of which they are the sole beneficiary, and not seek to pass an undue financial burden on to the public.

  The Commission therefore recommends that the employee's contribution rate be increased from its current eight percent to parity with the employer's contribution at 10.15 percent, and thereafter should maintain this equivalent relationship in any future rate increases.[11]

- **Lower the Cost of Living Adjustment (COLA) for Current Employees[12] –** As the Commission heard in testimony from two other defined benefit programs in

[10] The Commission is sensitive to the legitimate legal questions surrounding the constitutionality of our recommendations. However, our mandate was to make those recommendations that we saw fit as necessary and not to determine their legality.

[11] It is important to note that even with an increase in the employee contribution rate, the employer will still incur a higher rate due to the AED schedule.

[12] The Commission would like to reiterate that benefits for those who are currently retired or those currently working and who are eligible for unreduced benefits would not change.

Colorado—Aurora and Denver—both of which are either at or above a 100 percent funded level, the flexibility to make annual adjustments in the COLA are critical to responsibly address changing economic conditions. Indeed, during the recent market downturn, the Denver Employees Retirement Plan suspended COLA increases to hedge against declining investment returns.

The Commission therefore recommends that the COLA formula for current workers, with the exception of those eligible for unreduced benefits, change to mirror those for new hires in the 2004 legislation—the lower of three percent or the rate of inflation. Additionally, the Commission would strongly encourage the Board of Trustees to examine going to a flexible system such as Denver's that would allow the Board to adjust the COLA on an annual basis rather than relying on statutory requirements.

- **Increase the Retirement Age for Current Members Under Forty Years of Age –** There is arguably no more contentious issue, be it the debate over Social Security reform or the debate over PERA's fiscal future than the age at which employees may retire with unreduced benefits. The Commission believes that the 1999 legislation lowering the minimum age from 55 to 50 was not only shortsighted, but also fundamentally inappropriate for the modern era.

  While the Commission applauds the increase in retirement age from 50 back to 55 for new hires in the 2004 legislation, the Commission feels that it is simply not sustainable to allow state workers to retire upon reaching the half-century mark, particularly given the relative inability of private sector workers to enjoy the same perquisite.

  The Commission therefore recommends increasing the retirement age for current workers to a minimum of age 55—with the possibility of increasing the age even higher, potentially to 65 for younger workers. However, we recognize that many older employees have begun preparing for retirement under the existing rules, and thus recommend that any increase be limited to those under forty years of age.

The Future of PERA

In addition to identifying solutions to meet the immediate financial needs of the plan, during the course of the Commission's work the defined contribution plan, implemented in several other states and in the private sector, often arose as a potential alternative to the existing defined benefit plan.

While the defined contribution plan has one undisputable benefit, the virtual elimination of risk to state taxpayers, the Commission recognizes that there are both advantages and disadvantages to replacing the existing PERA defined benefit plan with its defined contribution counterpart. However, because the scale and scope of such a shift is beyond the Commission's mandate, we recommend the creation of a Legislative interim committee during the coming General Assembly to explore the issues involved in moving to a defined contribution plan.

Addendum - *State Treasurer's Charge to the Commission*

In June 2004, the Colorado Public Employee Retirement Association (PERA) announced that the program's unfunded liability—a measure of its ability to meet future benefit payments with existing resources—had grown from $7 billion the year before to nearly $10 billion, despite a record year of investment returns in its portfolio.

Unfortunately, this disturbing announcement was simply the latest in a series of revelations from the troubled program on its distressed financial condition—a condition that at no foreseeable time in the future will improve sufficiently enough to meet the promised benefits made to the 170,000 Colorado workers depending on the program for their retirement security.

Even more unsettling, PERA's announcement of its financial condition comes on the heels of legislation developed by PERA and passed by the General Assembly during the 2004 Regular Session. Intended to improve the program's financial stability, according to PERA's own actuary, the legislation will in fact not eliminate PERA's unfunded liability, nor will it eliminate the program's infinite amortization schedule—a violation of state law.

To address this vital program's long-term problems, Colorado State Treasurer Mike Coffman, who serves as an *ex officio* trustee of the organization, determined that outside action had to be taken to restore the program's fiscal stability, protect the interests of state taxpayers, and to provide financial security to PERA's members. Quite simply, it is time for outsiders with a fresh perspective and new ideas to attack these seemingly intractable problems.

To this end, Treasurer Coffman established the Commission to Strengthen & Secure PERA and charged its two capable co-chairs, former Colorado Governor Richard Lamm and former U.S. Senator Hank Brown[13], with developing recommendations to secure PERA's financial future and strengthen the program for its members.

Objectives

The Treasurer's Commission to Strengthen & Secure PERA is charged with four objectives:

- Evaluate the financial, structural and legal problems involved with making changes to the program.
- Develop an actuarially sound proposal for bringing the program into compliance with the state law mandating a maximum 40-year amortization schedule for government defined-benefit pension programs.
- Develop recommendations to strengthen and improve PERA's governance structure.

[13] Sen. Brown resigned as Co-Chairman of the Commission on April 19, 2005 due to his appointment as President of the University of Colorado.

- Develop a mechanism that gives the PERA Board of Trustees and the General Assembly the ability to make ongoing adjustments to the program if PERA's amortization schedule falls outside statutory guidelines.

Commission Principles

To provide guidance to the Commission on developing its recommendations, Treasurer Coffman has developed a series of principles that a final proposal from the Commission must incorporate:

- *Financial Security* – Any recommendation of the Commission must enhance the long-term financial stability of PERA. A promise made must be a promise kept, and the Commission's recommendations must provide a framework to ensure the financial security of the program for working and retired members.

- *Fairness* – Every Coloradan has a stake in PERA's future. Retirees, working members and state taxpayers have a vested interest in ensuring PERA's long-term fiscal stability. Any changes to the program must seek to balance the interests of these key stakeholders, without passing an undue burden to any one group—present or future. For workers and retirees, this means a fair return for their work; for taxpayers, this means a respect for the funds they pay to provide this return for PERA retirees and members.

- *Protect Current Retirees* – For those Coloradans already collecting benefits from PERA, their retirement funds must be protected. The Commission may not make any recommendations that materially affect current retirees.